

Medicare Prescription Drug Plan Cost Estimator Tool Methodology

The calculations for the Cost Estimator tool on www.medicare.gov are based on the standard benefit Medicare Prescription Drug Plan. The calculation includes the four levels of coverage, including:

1. \$250 deductible (beneficiary pays full discounted drug cost based on plan negotiated prices)
2. 25% drug cost share to the beneficiary during the initial coverage period (\$250 - \$2250)
3. 100% drug cost share during the coverage gap period (total drug cost from the initial coverage limit (\$2250 to beneficiary total out of pocket cost of \$3600)
4. 5% drug cost share once beneficiary's total out of pocket drug cost reaches \$3600

The cost estimates are annualized and include the lowest annual premium offered by a Medicare Prescription Drug Plan for a particular state. In addition, a 5% discount (**See Note 1**) was added to the monthly drug cost entered by the user to reflect additional plan negotiated discounts.

For example: Beneficiary in Minnesota with monthly drug spending of \$200.00 (\$2400.00 annualized). The amounts in the boxes indicate beneficiary's responsibility.

- a. Annual Premium for drug plan: $\$1.87 \times 12 \text{ months} = \22.44
- b. Annual drug spending after 5% discount: $\$2400.00 \times 0.95 = \2280.00
- c. \$250.00 deductible: $\$2280.00 - \$250.00 = \$2030.00$
- d. 25% drug cost share during initial coverage level (\$250.00 - \$2250.00):
 $0.25 \times 2000.00 = \$500.00$
- e. 100% drug cost share during the coverage gap period:
 $\$2030.00 (\text{item c}) - \$2000.00 = \$30.00$

Estimated total annual Medicare drug spend including premium: $\$22.44 + \$250.00 + \$500.00 + \$30.00 = \$802.44$

Estimated annual savings: $\$2400.00 - \$802.44 = \$1597.56$

Cost Share after Deductible: $\$500.00 + \$30.00 = \$530.00$

Note 1:

Based on preliminary Medicare Prescription Drug Plan pricing data and CMS analysis¹, the national average discount of AWP (Average Wholesale Price) minus 15% for brand name drugs was used to derive the 5% discount amount. To recognize that those persons paying retail pricing (with no insurance) rarely pay the full AWP price, we assumed a non-insured person could obtain drugs in a retail setting at a price of ~AWP-10%. This figure is based on commercial drug plan data licensed through a vendor. By enrolling in a Medicare Prescription Drug Plan, beneficiaries can obtain an additional 5% discount (i.e. AWP-15% versus AWP-10%) even when paying the full amount for a drug (i.e. during the deductible and coverage gap period). We believe that final pricing data for Medicare Prescription Drug plans will result in a discount greater than AWP-15% but we chose to be conservative in our projected savings. In addition, we chose to use the national average discount for brand name drugs although we recognize that generic drugs would have a much larger discount.

1. Federal Register/Vol. 70, No.18/ Friday, January 28, 2005, page 4466